

GAO

Testimony

Before the Subcommittee on Housing and
Community Opportunity, Committee on
Financial Services, House of
Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Tuesday, July 20, 2004

MULTIFAMILY HOUSING

More Accessible HUD Data Could Help Efforts to Preserve Housing for Low- Income Tenants

Statement of David G. Wood, Director
Financial Markets and Community Investment



July 20, 2004

GAO
Accountability • Integrity • Reliability
Highlights

Highlights of GAO-04-992T, a report to the Committee on Financial Services, House of Representatives

Why GAO Did This Study

The Department of Housing and Urban Development (HUD) has subsidized the development of about 1.7 million rental units in over 23,000 privately owned properties by offering owners favorable long-term mortgage financing or rental assistance payments or both in exchange for owners' commitment to house low-income tenants. When owners pay off mortgages—the mortgages “mature”—the subsidized financing ends, raising the possibility of rent increases. Based on a report issued in January 2004, this testimony discusses (1) the number and selected characteristics of HUD-subsidized rental properties with mortgages scheduled to mature in the next 10 years, (2) the potential impact on tenants upon mortgage maturity, and (3) the tools and incentives that HUD, the states, and localities offer owners to keep HUD properties affordable upon mortgage maturity.

What GAO Recommends

In its report, GAO recommended that HUD solicit the views of state and local housing agencies to determine what information on HUD-subsidized properties is needed and the most effective format to convey this information. HUD concurred with the report's conclusions and recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-992T.

To view the full product, click on the link above. For more information, contact David G. Wood at (202) 512-8678 or WoodD@gao.gov.

MULTIFAMILY HOUSING

More Accessible HUD Data Could Help Efforts to Preserve Housing for Low-Income Tenants

What GAO Found

Nationwide, the HUD mortgages on 2,328 properties—21 percent of the 11,267 subsidized properties with HUD mortgages—are scheduled to mature in the next 10 years, but among states this percentage varies significantly: from 7 percent in Alabama, to 53 percent in South Dakota. About three-quarters of these mortgages are scheduled to mature in the last 3 years of the 10-year period. As part of our analysis, we developed a searchable database available on a CD-ROM, showing property-level data for each of HUD's subsidized rental properties scheduled to mature in the next 10 years.

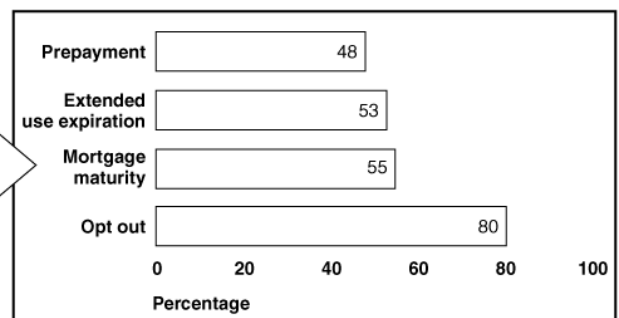
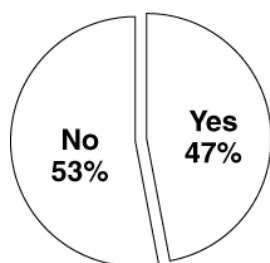
Impacts on tenants depend on tenant protections available under program statutes and regulations, as well as on property owners' decisions about their properties. No statutory requirement exists to protect tenants from increases in rent when HUD mortgages mature, absent the existence of rental assistance contracts or other subsidies. Without tenant protection requirements, tenants in over 101,000 units that do not receive rental assistance may have to pay higher rents or move when the HUD mortgages on these properties mature and rent restrictions are lifted. During the past 10 years, HUD-insured mortgages at 32 properties reached mortgage maturity, and the majority of these properties are still serving low-income tenants.

HUD does not offer incentives to owners to keep properties affordable upon mortgage maturity. While many state and local agencies GAO surveyed offered incentives to preserve affordable housing, they have not directed them specifically at properties where HUD mortgages mature. Most of the agencies do not track HUD mortgage maturity dates for subsidized properties. In addition, although HUD's Web site contains detailed property-level data, some state and local agencies perceive that the information is not readily available.

State and Local Agencies' Efforts to Identify and Track Properties that May Leave HUD Programs

Does your agency identify and track when properties are eligible to leave HUD's housing programs?

For which circumstances does your agency track when properties are eligible to leave HUD's housing programs?



Source: GAO.

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to be here today to discuss our report to you on properties with mortgage financing provided through the Department of Housing and Urban Development (HUD).¹ Since the 1950s, HUD has subsidized about 1.7 million rental units in over 23,000 privately owned properties that are generally affordable to low-income tenants—those with incomes 80 percent or less of area median income. HUD supported the development of affordable housing by offering property owners favorable mortgage financing, long-term rental assistance contracts, or both in exchange for owners' commitment to house low-income tenants for at least 20 years and, in some cases, up to 40 years. However, many of these commitment periods will be completed in the next 10 years as the HUD mortgages reach their scheduled maturity dates and long-term rental assistance contracts expire. These subsidized properties represent a significant source of housing that is affordable to low-income households.

My statement today, which is based on our January 2004 report, discusses (1) the numbers and selected characteristics of HUD-subsidized rental properties that are scheduled to reach mortgage maturity through 2013—roughly the next 10 years; (2) the potential impact on tenants when mortgages reach maturity; and (3) the tools and incentives that HUD, the states, and localities offer owners to keep HUD properties affordable when mortgages mature. In preparing the report, we analyzed HUD databases to identify the characteristics of those properties with mortgages that have already reached maturity as well as those that are scheduled to reach maturity by December 31, 2013.² We surveyed 327 state and local housing and community development agencies to obtain information on what tools and incentives they use to keep HUD-subsidized properties affordable to low-income tenants. In addition, we reviewed statutes and regulations and interviewed HUD officials to identify tenants' protections when mortgages on subsidized properties mature. We performed our work from January through November 2003 in accordance with generally accepted government auditing standards.

¹U.S. General Accounting Office, *Multifamily Housing: More Accessible HUD Data Could Help Efforts to Preserve Housing for Low-Income Tenants* [GAO-04-20](#) (Washington D.C.; January 23, 2004).

²To have 10 full years of data, our analysis covered the period from April 15, 2003, through December 31, 2013.

To summarize:

- Nationwide, 21 percent or 2,328 of the 11,267 subsidized properties with HUD mortgages are scheduled to reach mortgage maturity through 2013, but among states this percentage varies significantly: from 7 percent in Alabama, to 53 percent in South Dakota. These properties contain 236,650 units. Nearly all of these 2,328 properties were financed under three specific HUD programs, two of which operated only between 1961 and 1973. About three-quarters of the mortgages are scheduled to mature in the last three years of the 10-year period.
- Impacts on tenants depend in part on tenant protections available under program regulations and statutes, as well as on owners' decisions about their properties. No statutory requirement exists to protect tenants from increases in rent when HUD mortgages mature, absent the existence of rental assistance contracts or other subsidies. Without tenant protection requirements, tenants in over 101,000 units that do not receive rental assistance may have to pay higher rents or move when the HUD mortgages on these properties mature and rent restrictions are lifted. Further, owners are not required to notify tenants when a property's mortgage is about to mature. In contrast, owners are required to notify tenants up to 1 year in advance of their intent to prepay mortgages or decline renewal of rental assistance contracts. Property owners' decisions on whether they continue to serve low-income tenants after their HUD mortgages mature depend on many factors, such as neighborhood incomes, the condition of their properties, and owners' missions. During the past 10 years, HUD-insured mortgages at 32 properties reached mortgage maturity, and the majority of these properties are still serving low-income tenants.
- HUD does not offer any tool or incentive to keep properties affordable after HUD mortgages mature, although it does offer incentives to keep properties affordable under certain other circumstances, such as the expiration of rental assistance contracts or prepayment of HUD mortgages. According to officials from the four national housing and community development organizations we contacted, because few HUD mortgages have matured to date, their member state and local agencies have not experienced the need to develop programs to deal with mortgage maturity specifically. They noted that their member agencies could offer tools and incentives, such as loans and grants, to keep properties affordable after mortgage maturity. However, over 50 percent of the state and local agencies that responded to our survey reported that they have no system in place to identify and track properties that may leave HUD's

programs, and about three-quarters of them did not track the maturity dates of HUD mortgages.³

Based on our findings, we recommended that HUD provide more widely available and useful information for state and local agencies to track subsidized properties that may leave HUD programs.

Background

Prior to the early 1970s, the federal government provided affordable multifamily housing for low- and moderate-income households by subsidizing the production of either privately owned housing or government-owned public housing. Under production programs, the subsidy is tied to the unit (project-based), and tenants benefit from reduced rents while living in the subsidized unit. HUD's mortgage financing programs include:

- *Section 202 Elderly and Disabled Housing Direct Loan*, which provided below-market interest rates on up to 40-year mortgages to developers of rental housing for low-income elderly and persons with disabilities from 1959 to 1991. Congress changed Section 202 to a grant program in 1990.
- *Section 221(d)(3) Below-Market Interest Rate (BMIR)*, which provided subsidized financing on private 40-year mortgages to developers of rental housing from 1961 to 1968.
- *Section 236*, which provided monthly subsidies to effectively reduce interest rates on private 40-year mortgages for rental housing from 1968 to 1973.
- *Sections 221(d)(3) and 221(d)(4)*, which insured private mortgages to developers of rental housing from 1961.
- *Section 231*, which insured private mortgages to developers of rental housing for the elderly from 1959.

In order to reach lower-income tenants, a portion of the units in many properties developed under these production programs were further subsidized by provision of rental assistance, under programs such as Rent Supplement, Rental Assistance Payments (RAP), and project-based Section 8.

³Additional details on the results of our survey are available on the Internet at www.gao.gov/cgi-bin/getrpt?GAO-04-211SP.

In the early 1970s, questions about the production programs' effectiveness led the Congress to explore options for using existing housing to shelter low-income tenants. The Housing and Community Development Act of 1974 included both approaches—a project-based new construction and substantial rehabilitation program and a tenant-based rent certificate program for use in existing housing (currently named the Housing Choice Voucher program)—all referred to as Section 8 housing.⁴ Project-based and tenant-based Section 8 assistance is targeted to tenants with incomes no greater than 80 percent of area median income, and tenants generally pay rent equal to 30 percent of adjusted household income. (The project-based Section 8 program also provides rental assistance to owners of properties that were not financed with HUD mortgages.)

Beginning in the late 1980s, owners of some subsidized properties began to be eligible to leave HUD programs by prepaying their mortgages or opting out of their project-based Section 8 rental assistance contracts. Once these owners removed their properties from HUD programs, they were no longer obligated to maintain low rents or accept rental assistance payments. In response, in 1996, Congress created a special type of voucher, known as an enhanced voucher, to protect tenants from rent increases in these properties.⁵

Not all property owners repay mortgages as originally scheduled. For example, an owner may refinance the mortgage to pay for improvements to the property. Other owners may experience financial difficulties and default on their mortgages. From January 1993 through December 2002, HUD data show that the agency terminated the insurance on 231 mortgages. About 14 percent were due to mortgages that matured; other reasons included owners' mortgage prepayment (37 percent) and foreclosure (22 percent).

⁴Funds provided by other federal programs, such as HUD's Community Development Block Grant and HOME programs, can be used by states and localities to subsidize housing for low-income tenants. Also, the Low-Income Housing Tax Credit program provides tax incentives for private investors to develop housing affordable to low-income tenants.

⁵Enhanced vouchers differ from regular tenant-based housing vouchers in that they (1) may provide a greater subsidy (that is, may be used to rent more expensive units) and (2) give tenants a right to remain in their units after conversion to market rent.

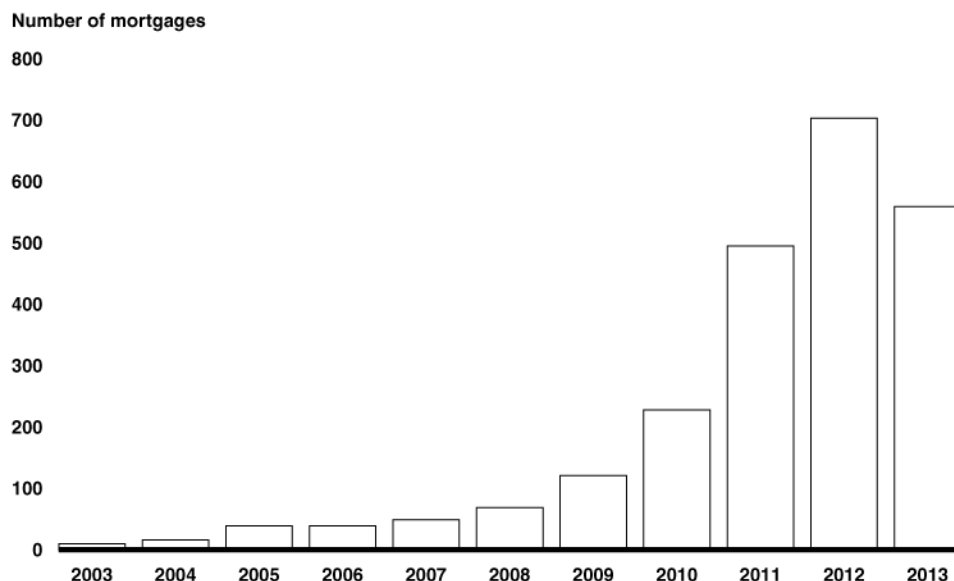
About One-Fifth of HUD's Mortgages Are Scheduled to Mature through 2013

Nationwide, 21 percent of subsidized properties with HUD mortgages have mortgages that are scheduled to mature from 2003 through 2013, but the percentage varies significantly by state. Nearly all of these properties were financed under the Section 236, Section 221(d)(3) BMIR, and Section 221(d)(3) programs. About three-quarters of the mortgages are scheduled to mature in the last three years of the 10-year period.

Scheduled Mortgage Maturities Through 2013 Vary by Year and Program

Of the 11,267 subsidized properties (containing 914,441 units) with HUD mortgages, 21 percent (2,328 properties containing 236,650 units) have mortgages that are scheduled to mature from 2003 through 2013. The remaining 79 percent of these mortgages (on over 8,900 properties) are scheduled to reach maturity outside of the 10-year period.⁶ Additionally, the bulk of these mortgages (about 75 percent) are scheduled to mature in the latter three years of the 10-year period (see fig. 1). This concentration in the latter part of the 10-year period is attributable to the 40-year Section 221(d)(3) BMIR and Section 236 mortgages that HUD helped finance in the late 1960s and 1970s, respectively.

Figure 1: HUD Mortgages Scheduled to Mature Annually through 2013



Source: GAO analysis of HUD data.

⁶Most of these mortgages were financed under the Section 202, Section 221(d)(4), and Section 236 programs.

As table 1 shows, about 57 percent of the properties with mortgages scheduled to mature in the 10-year period were financed under Section 236, 22 percent under Section 221(d)(3) BMIR, and 19 percent under Section 221(d)(3). Section 202, Section 221(d)(4), and Section 231 accounted for only 3 percent of these properties.

Table 1. Subsidized Properties with HUD Mortgages by Program Scheduled to Mature through 2013

Financing program	Number of properties	Percentage of properties	Total units	Units assisted with project-based Section 8 ^a
HUD subsidized mortgage				
Section 236	1,333	57%	139,769	78,139
Insured	1,333	57%	139,769	78,139
Noninsured ^b	0	0%	0	0
Section 221(d)(3) BMIR	502	22%	56,573	18,810
Section 202	41	2%	3,208	871
HUD unsubsidized mortgage				
Section 221(d)(3)	431	19%	35,263	34,711
Section 221(d)(4)	14	^c	1,239	1,146
Section 231	7	^c	598	410
Noninsured rent supplement	^d	^d	^d	^d
Total	2,328	100%	236,650	134,087

Source: GAO analysis of HUD data.

^aAlso included are units that receive RAP or Rent Supplement. Project-based Section 8, however, is the dominant form of rental assistance across all financing programs. The Section 8 Moderate Rehabilitation program is not included in this table because HUD's multifamily database does not track this program.

^bNo mortgage was scheduled to mature in this period.

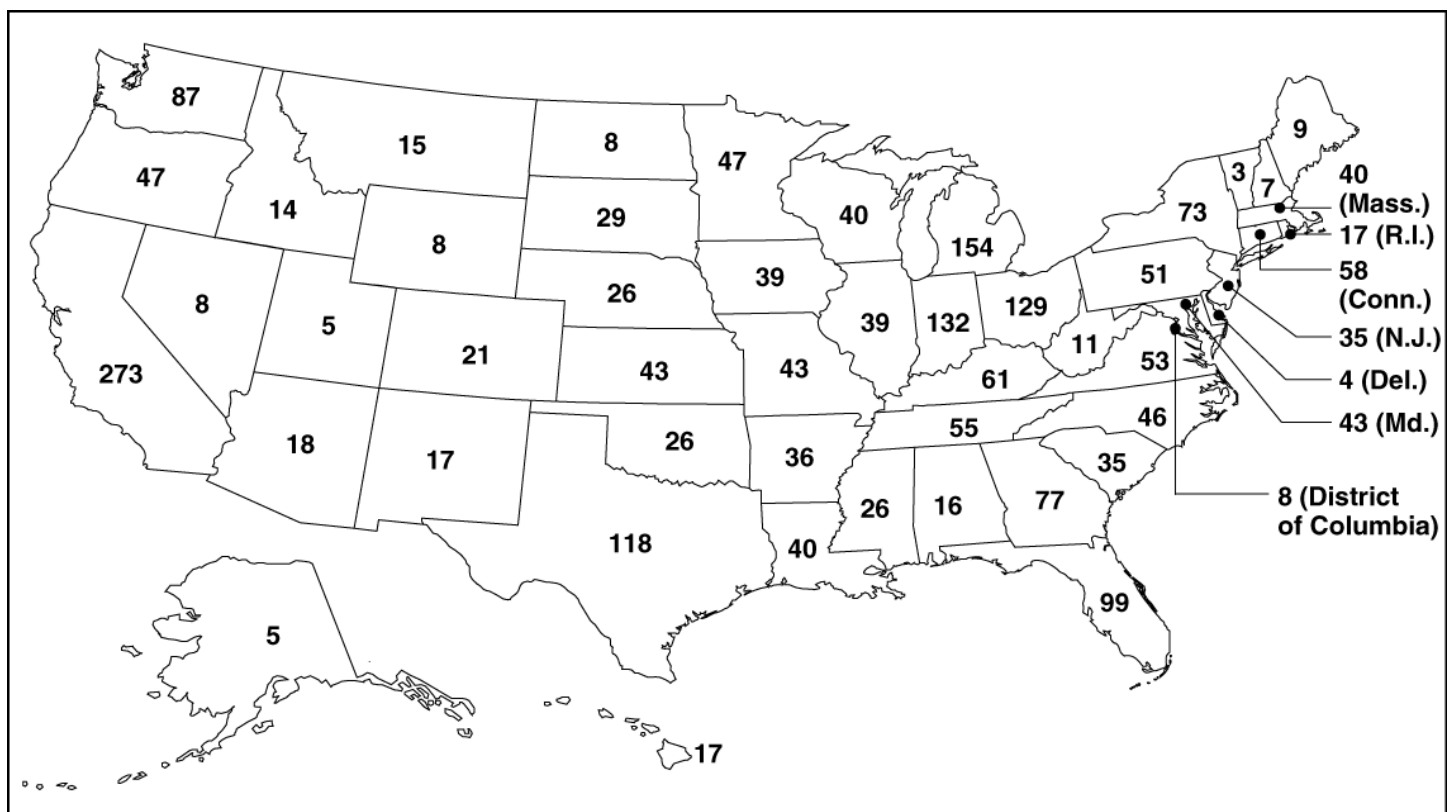
^cLess than 1 percent.

^dSince properties with noninsured rent supplement do not carry a HUD mortgage, HUD does not track mortgage-level data on these properties.

Number of Mortgages Scheduled to Mature by 2013 Also Varies by State

The number of mortgages scheduled to mature through 2013 varies greatly by state (see fig. 2). Although the average is 46 mortgages per state (including the District of Columbia), the number ranges from a high of 273 maturing mortgages in California to 3 in Vermont.

Figure 2: Subsidized Properties with HUD Mortgages Scheduled to Mature through 2013, by State



Source: GAO analysis of HUD data.

Note: The figure above includes 2,311 of the 2,328 properties in our analysis—excluded are properties in territories of the United States, such as Puerto Rico and Guam.

The states also vary considerably in terms of the percentage of their respective HUD mortgages on subsidized properties that are scheduled to mature through 2013, ranging from 7 percent in Alabama to 53 percent in South Dakota.

Tenant Impacts Depend on Protections and Property Owners' Decisions

Over the next 10 years, low-income tenants in over 101,000 units may have to pay higher rents or move when HUD-subsidized mortgages reach maturity. This is because no statutory requirement exists to protect tenants from increases in rent when HUD mortgages mature and rent restrictions are lifted. A number of factors may affect owners' decisions regarding the continued affordability of their properties after mortgages mature, including neighborhood incomes, physical condition of the property, and owners' missions.

HUD Does Not Offer Protection for Unassisted Tenants in Properties with Maturing Mortgages

There is no statutory authority that requires HUD to offer tenants special protections, such as enhanced vouchers, when a HUD mortgage matures. However, tenants who receive rental assistance in properties with maturing mortgages would be eligible for enhanced vouchers under rental assistance programs, such as project-based Section 8.

Of the 2,328 subsidized properties with mortgages scheduled to mature through 2013, 480—containing 45,011 units—do not have rental assistance contracts (see table 2). While the remaining 1,848 properties are subsidized with rental assistance, not all units within the properties are covered. According to HUD data, about 30 percent of the units in these properties are not covered—a total of 57,552 units with tenants who do not receive rental assistance. Altogether, the tenants in a total of 102,563 units are not protected under the rental assistance programs. Of these, 101,730 units—most of them in properties with mortgages under the Section 221(d)(3) BMIR and Section 236 programs—could face higher rents after mortgage maturity when the rent restrictions under these programs are lifted.

Table 2. Subsidized Properties with HUD Mortgages Scheduled to Mature through 2013, by Rental Assistance Program

(number of properties)					
Rental assistance program ^a					
Financing program	None	Project-based Section 8	Rent Supplement	Other ^b	Total
HUD subsidized mortgage					
Section 236	166	1,123	40	4	1,333
Insured	166	1,123	40	4	1,333
Noninsured ^c	0	0	0	0	0
Section 221(d)(3) BMIR	294	206	2	0	502
Section 202	20	4	5	2	41
HUD unsubsidized mortgage					
Section 221(d)(3)	0	403	27	0	431
Section 221(d)(4)	0	14	0	0	14
Section 231	0	6	1	0	7
Noninsured rent supplement	d	d	d	d	d
Total	480	1,766	76	6	2,328
Percent of total	21%	76%	3%	<1%	100%

Source: GAO analysis of HUD data.

Note: Percentages may not add due to rounding.

^aThe Section 8 Moderate Rehabilitation program is not included in this table because HUD's multifamily database does not track this program.

^bIncludes contracts for service coordinators.

^cNo mortgage was scheduled to mature in this period.

^dSince properties with noninsured rent supplement do not carry a HUD mortgage, HUD does not track mortgage-level data on these properties.

According to a HUD study, tenants in properties with mortgages under the Section 221(d)(3) BMIR and Section 236 programs have an average household income somewhat greater than that for tenants who receive rental assistance; thus, they may be somewhat more able to afford higher rents. Properties financed under the Section 221(d)(3) BMIR program allow tenants with incomes of up to 95 percent of area median income; in comparison, project-based Section 8 does not serve tenants earning more than 80 percent of area median income.

Tenants in units covered by a rental assistance program—there are about 134,087 units in the properties with HUD mortgages scheduled to mature through 2013—will continue to benefit from affordable rents, regardless of when the mortgage matures, as long as the rental assistance contract is in force. When long-term rental assistance contracts expire, HUD may renew them. Currently, HUD generally renews expiring long-term contracts on an annual basis but may go as long as 5 years, and in some cases, 20 years. According to an AARP study, during the late 1990s, about 90 percent of the property owners renewed their contracts, thereby continuing to provide affordable housing.⁷ The extent to which the trend continues will depend on the availability of program funding and housing market conditions. If a rental assistance contract expires prior to mortgage maturity and the owner opts not to renew it, assisted tenants would be eligible for enhanced vouchers.

Tenants could potentially be affected by the length of time given to them to adjust to rent increases as well as by the amount of the increase. Property owners are not required to notify tenants when they pay off their mortgage at mortgage maturity. In contrast, property owners electing to opt out of the Section 8 project-based program must notify tenants 1 year in advance of the contract expiration. Owners electing to prepay their mortgages under the Section 236 or Section 221(d)(3) BMIR programs must notify tenants at least 150, but not more than 270, days prior to prepayment.

A Number of Factors Influence An Owner's Decision to Keep a Property Affordable Upon Mortgage Maturity

Many factors could influence an owner's decision to keep a property in the affordable inventory or convert to market rate rents upon mortgage maturity. For a profit-motivated owner, the decision may be influenced by the condition of the property and the income levels in the surrounding neighborhood. If the property can be upgraded at a reasonable cost, it may be more profitable to turn the building into condominiums or rental units for higher income tenants. If repair costs are substantial or if high-income residents are not present in the surrounding area, it may be more profitable to leave the property in the affordable inventory. Tools and incentives offered by state and local agencies may also influence this decision. In addition, because most of these owners have had the right to prepay their mortgages and opt out of their Section 8 contracts for a

⁷ AARP Public Policy Institute, *Section 8 Project-Based Rental Assistance: The Potential Loss of Affordable Federally Subsidized Housing Stock* (Washington, D.C.: February 2001).

number of years, the economic factors that drive a decision to convert to market rate are not unique to mortgage maturity.

HUD data show that nonprofit organizations own about 38 percent of the properties with mortgages scheduled to mature in the next 10 years. For a nonprofit owner, the decision would likely be motivated by cash flow considerations since, in theory, these owners are not primarily motivated by economic returns. Since mortgage maturity results in an improvement in property cash flow, reaching mortgage maturity by itself would not necessarily trigger removal from the affordable inventory. For example, the property manager at one of the 16 properties (nonprofit ownership) whose mortgage matured in the past 10 years and who does not currently have project-based Section 8 assistance told us that no longer having to pay the mortgage left money for repairs needed to keep the units affordable for their low-income senior tenants. Additionally, a nonprofit organization would be more likely to keep the property affordable to low-income tenants because to do otherwise could conflict with its basic mission of providing affordable housing.

Another factor is the loss of the interest rate subsidy that occurs when the mortgage matures. When interest rate subsidies were first paid to properties built in the 1960s and 1970s, they represented substantial assistance to property owners. Over time, inflation has reduced the value of this subsidy. For example, the average interest rate subsidy payment for a Section 236 property with a mortgage maturing in the next 10 years is \$66 per unit per month. Price levels have roughly quadrupled since 1970, so to have the same purchasing power would require about \$260 in today's dollars. Section 8 and similar project-based rental assistance now provide the bulk of the assistance to these subsidized properties—75 percent of the assistance versus about 25 percent that derives from the Section 236 interest-rate subsidy. Furthermore, inflation will continue to erode the value of the interest-rate subsidy until mortgage maturity, while the rental assistance subsidy is adjusted annually to account for increases in operating costs.

Most Properties with HUD Mortgages That Reached Maturity Offer Rents Affordable to Low-Income Tenants

Our review of HUD's data showed that HUD-insured mortgages at 32 properties matured between January 1, 1993, and December 31, 2002. Sixteen of the 32 properties are still serving low-income tenants through project-based Section 8 rental assistance contracts. For 13 of these 16 properties, the rental assistance covers 100 percent of the units (799 assisted units), and for the remaining three properties it covers 54 percent of the units (174 assisted units).

Using HUD's archived data for inactive properties, we were able to obtain rent information for 10 of the remaining 16 properties.⁸ We found that all 10 (none of which have project-based rental assistance contracts) are offering rents that are affordable to tenants with incomes below 50 percent of area median income.⁹ Because of the variety of factors that can influence owners' decisions, however, these properties are not necessarily indicative of what will happen to other properties as their HUD mortgages mature.

Various property managers we contacted also provided information about their efforts to keep their properties affordable. For example, a senior complex (nonprofit ownership) continues to generally charge residents about 30 percent of their income for rent as they did when they were in HUD's subsidized portfolio. According to the property manager of two of the properties (for-profit ownership), he unsuccessfully sought incentives from HUD in 2002 to keep the properties in the inventory when the mortgages reached maturity and both properties left HUD's multifamily portfolio. However, both properties are accepting tenant-based vouchers and the rents in both properties are affordable to very low-income tenants.

Tools and Incentives Are Available to Help Keep Properties Affordable, but Are Not Specifically Designed to Deal with HUD Mortgage Maturity

HUD does not offer any tools or incentives to keep properties affordable after HUD mortgages mature, although it does offer incentives to maintain affordability for properties that also have expiring rental assistance contracts. According to officials from the four national housing and community development organizations we contacted, because few HUD mortgages have matured to date, their member state and local agencies have not experienced the need to develop programs to deal with mortgage maturity. They noted that their member agencies could offer tools and incentives, such as loans and grants, which might be used by owners to keep properties affordable after mortgage maturity. However, about three-quarters of the state and local agencies that responded to our survey reported that they do not track the maturity dates on HUD mortgages, and

⁸Of the remaining six properties, we did not include two because they are skilled nursing facilities and do not charge traditional rents. We could not obtain information on the others because there was insufficient contact information in HUD's archived database with which to locate current owners or managers, or the owners or managers were unwilling to provide us with information.

⁹Rent is generally considered affordable if it does not exceed 30 percent of tenant's gross income.

none provided examples of tools or incentives used to keep units affordable after mortgage maturity.¹⁰

HUD Does Not Offer Incentives to Keep Properties Affordable after Mortgage Maturity

During the 1990s, HUD established incentive programs to deal with the loss of affordable units because owners were prepaying their mortgages and opting out of their Section 8 contracts, but these incentives do not directly address the termination of the affordability requirements resulting from mortgage maturity. Rather, they can extend, under certain circumstances, the affordability period beyond the original term of the mortgage or allow property owners to be better positioned financially to continue providing affordable housing.

State and Local Agencies Identified Tools and Incentives to Preserve Affordable Housing, but Not Specifically for Covering Mortgage Maturity

The state and local agencies we surveyed identified 18 different tools and incentives used to preserve affordable housing. Of the 18, 6 were funded directly by the federal government, while 12 were administered by state and local governments and not directly federally funded. However, there was no evidence that they have been used to protect properties when HUD mortgages mature. This may be because relatively few mortgages have matured to date.

State and local tools and incentives include housing trust funds used to make loans and grants, financial assistance to nonprofit organizations to aid them in acquiring HUD-subsidized properties, and property tax relief to owners of HUD-subsidized properties. These state and local agencies identified several incentives that they believe are the most effective in preserving the affordability of housing for low-income tenants. For example, over 60 percent of the 62 state agencies that responded identified the 4-percent tax credit and HOME programs as effective means for preserving the affordability of HUD-subsidized properties. Of the 76 local agencies that responded, over 70 percent identified HOME as effective and over 60 percent identified CDBG as effective.

¹⁰The detailed results of our survey ([GAO-04-211SP](http://www.gao.gov/cgi-bin/getrpt?GAO-04-211SP)) are available on our website, at www.gao.gov/cgi-bin/getrpt?GAO-04-211SP.

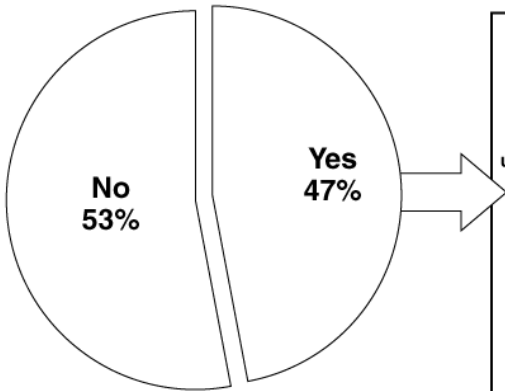
Fewer Than Half of State and Local Agencies Identify and Track Properties That May Leave HUD Programs

Over 50 percent of the survey respondents reported that they have no system in place to identify and track properties in their states or localities that could leave HUD’s subsidized housing programs. Further, about three-quarters reported that they do not track the maturity dates of HUD mortgages. Several respondents to our survey noted that it would be helpful to them if HUD could provide information about properties that might leave HUD’s programs.

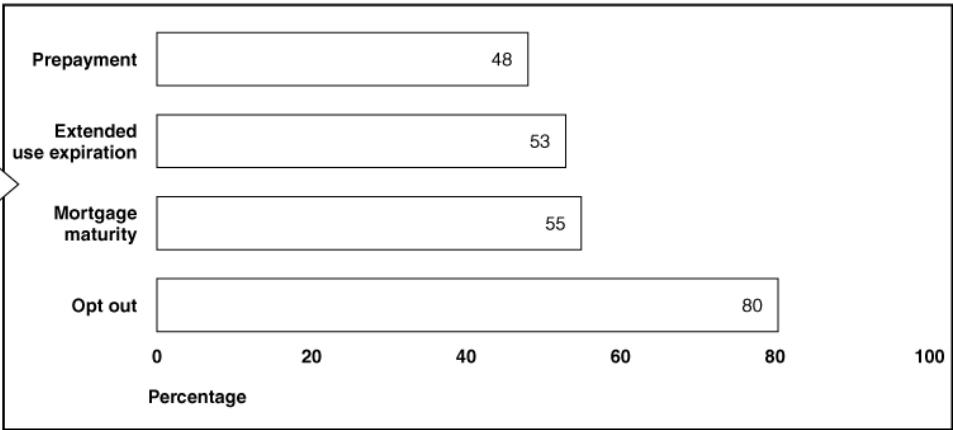
Of the 102 agencies that indicated they identified and tracked properties, 56 (55 percent) said that they monitored the scheduled maturity dates of HUD mortgages on local properties (see fig. 3). More agencies (82 or 80 percent) reported that they identified and tracked properties that might opt out of HUD project-based rental assistance contracts.

Figure 3: State and Local Agencies’ Efforts to Identify and Track Properties That May Leave HUD Programs

Does your agency identify and track when properties are eligible to leave HUD’s housing programs?



For which circumstances does your agency track when properties are eligible to leave HUD’s housing programs?



Source: GAO.

Note: “Extended use expiration” refers to the expiration of the use-agreement period, when owners must continue to keep their tax credit properties affordable to low-income tenants after the initial 15-year affordability period required by the Internal Revenue Code has ended. The length of this extended period of affordability is 15 years or more, depending on individual state requirements.

HUD officials noted that they make property-level information available to the public on HUD’s multifamily housing Web site. This Web site contains detailed property-level data on active HUD-insured mortgages and expiring rental assistance contracts. However, according to our survey, some state and local agencies perceive that the information is not readily available. One problem may be that these data are in a format that may not

be sufficiently “user-friendly” for these agencies. The data must be accessed using database software, which requires users to be proficient in these types of software.

HUD officials agreed that the agency could provide more “user friendly” information because the data are not as accessible to state and local agencies as they could be. They also noted that these agencies could benefit from a “watch list” that identifies properties that may leave HUD subsidy programs in their jurisdictions, such as upon mortgage maturity, especially if such data were updated annually and readily available online so that agencies would have the information needed to prioritize and fund efforts to preserve low-income housing in their jurisdictions.

While awareness of the potential for a HUD mortgage to mature or rental assistance to end does not guarantee that state or local agencies will take action to preserve the assisted units’ affordability to low-income tenants, such knowledge could better position state and local agencies to use available tools and incentives. Accordingly, we recommended that HUD take steps to provide more widely available and useful information. Using HUD’s data that we obtained to respond to your request, we also developed a prototype searchable database, available in CD-ROM format, showing property-level data for each of HUD’s subsidized rental properties scheduled to mature in the next 10 years.¹¹

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions at this time.

Contacts and Acknowledgements

For further information on this testimony, please contact David G. Wood at (202) 512-8678, or Andy Finkel at (202) 512-6765. Individuals making key contributions to this testimony included Mark Egger, Daniel Garcia-Diaz, Rich LaMore, and John McGrail.

¹¹This CD-ROM is available as a special GAO product ([GAO-04-210SP](#)) and may be ordered via the Internet at www.gao.gov/cgi-bin/ordtab.pl.

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to e-mail alerts" under the "Order GAO Products" heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
 TDD: (202) 512-2537
 Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548